

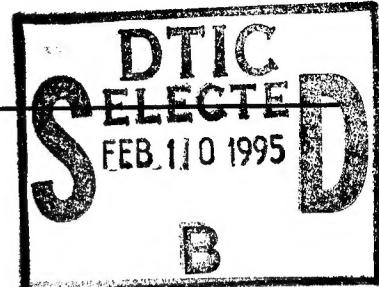
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FINANCIAL
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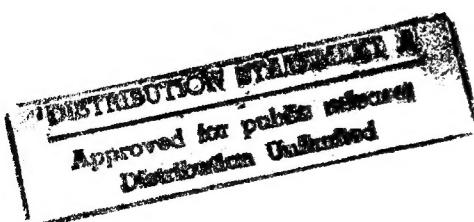
BIA Has Made Limited
Progress in Reconciling
Indian Trust Fund Accounts
And Developing A Strategic
Plan

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Statement of Jeffrey C. Steinhoff
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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the Bureau of Indian Affairs' (BIA) progress in reconciling the Indian trust fund accounts and developing a strategic plan for trust fund financial management improvement. The Secretary of the Interior is authorized by law to manage Tribal and Individual Indian Money Trust Funds. At the end of fiscal year 1991, the Indian trust funds included about 2,000 tribal and 291,000 Individual Indian Money accounts with balances totaling \$1.5 billion and \$440 million, respectively. Balances that have accumulated in the trust funds have resulted in part from payments of claims; oil, gas, and minerals royalties; land use agreements; investment income; and other sources. In fiscal year 1991, receipts totaled almost \$400 million, and disbursements ran about \$367 million.

BIA has a fiduciary responsibility to ensure that proper control and accountability is maintained over each trust account, but BIA has been slow in achieving this. Over the years, numerous audit reports have detailed a litany of problems involving weaknesses in BIA's control and oversight of these accounts.

The objective of the trust fund reconciliation and audit project, which began last summer, is to identify, to the extent practicable, correct account balances for the tribal and Individual Indian Money accounts using source documents to reconstruct trust account transactions so that account holders are provided as accurate an accounting as possible. However, as we testified last year, because many accounts are between 50 and 100 years old, the lack of supporting documentation was likely to hinder the reconstruction efforts.

BIA HAS BEEN PLAGUED BY LONG-STANDING
FINANCIAL MANAGEMENT PROBLEMS

A year ago, we testified that BIA's financial management problems transcend virtually every one of its principal accounting systems. BIA has often been criticized for erroneous allocations of receipts, erroneous payments to account holders, failure to consistently invest trust fund balances, and failure to pay interest. Today, tribes and individual Indians are still concerned about the accuracy of BIA's accounting for trust receipts and disbursements and the effectiveness of BIA's investment practices.

In its December 1991 Federal Managers' Financial Integrity Act report, Interior acknowledged that BIA is the Department's number one high risk area. The report stated that "[t]he Bureau's management of Individual Indian Money and Tribal trust funds is inadequate to properly maintain and administer the \$2.0 billion fund for which it has responsibility." The report goes on to state that BIA's management of tribal and individual Indian trust funds lacks effective internal controls and is not supported by systems that produce reliable information. Due to these problems and the

fact that the trust funds have never been reconciled, the account balances lack credibility.

STATUS OF THE RECONCILIATION PROJECT

Since the reconciliation contract was awarded last May, BIA and its contractor have gathered and organized thousands of boxes of accounting records, developed a methodology to reconstruct and reconcile the accounts, and estimated the level of effort and cost to complete various segments of the reconciliation work. The assessment results indicate that the reconciliation effort will be very difficult and that many accounts cannot be fully reconciled due to missing records, poorly documented accounting transactions, and the volume of data to be reviewed. Further, the contractor's cost estimates for completing the reconciliation work confirm our April 1991 assertion that reconstructing accounts would be costly, even after factoring in some cost-savings measures.

In October 1991, BIA's contractor proposed reconciling all possible tribal accounts in one rather than two phases, as originally planned, beginning with transactions for fiscal year 1990 and then working backwards to 1983. In January 1992, the contractor presented cost estimates on various reconciliation scope options. One of the options indicates a cost of more than \$3 million to reconstruct and reconcile transactions for approximately 2,000 tribal trust accounts back to fiscal year 1983--years for which BIA has automated accounting data. However, this approach excluded tribal funds accounted for in BIA's Individual Indian Money subsystem. If tribal funds accounted for in the subsystem were included in this estimate, the cost would rise an additional \$1.3 million. This amount is in addition to the \$1.7 million expended through January 15, 1992, to collect and organize accounting documents, purchase equipment, computer hardware and software, and develop an approach for reconciling the accounts.

Using the single phase approach the contractor began work to reconcile fiscal year 1990 tribal accounts as an initial effort. As of March 9, 1992, BIA's contractor had reconstructed and reconciled most fiscal year 1990 transactions except for 276 of the 2,010 tribal accounts because some fiscal year 1990 records are still missing.

The initial cost estimate for reconciling the 291,000 accounts maintained in the Individual Indian Money subsystem ranged from \$211 million to nearly \$400 million. Subsequently, a scope reduction reduced the estimated cost to between \$180 million and \$281 million. The reported balance of these accounts was \$440 million as of September 30, 1991. The cost of reconstructing some accounts exceeds their value. For example, at the three agency offices included in Phase I, about 80 percent of the Individual Indian Money account transactions are less than \$50 and

most account balances are under \$100. The contractor's average hourly rate is \$38.75, and it is reasonable to expect that much more than 1 hour would be required to reconstruct each account back 10 or more years.

Because of the high cost of reconciling Individual Indian Money accounts, as well as missing records and undocumented transactions, in February 1992, BIA suspended its contractor's attempts to reconcile these accounts. About the same time, the Director of BIA's Office of Trust Funds Management instructed the contractor to cease work on the tribal reconciliation. The Director then assembled a team of trust fund staff members to take the lead in reconciling the tribal trust accounts and redirected the contractor's work to focus on training team members to reconcile the tribal accounts.

Problems That Impede Successful Project Completion

Anticipating the previously reported records availability problems, BIA required the contractor to provide an assessment of the level of effort and cost required to complete the first phase of the reconciliation after 2 to 4 weeks' work. However, the assessment period lasted longer than originally envisioned--from July through January 1992, or 7 months--due to (1) the massive volume of records that needed to be gathered, organized, and analyzed and (2) the addition of some work steps, such as tracking receipt and deposit of funds to determine if interest were lost and determining the accuracy of land and mineral ownership records. As of January 1992, BIA's contractor had identified approximately 69,000 boxes of BIA accounting records and determined that about 17,000 of these boxes contained at least some documents pertaining to trust fund accounting. Yet even after this massive effort, records gaps still exist. In addition, a number of other problems and concerns were identified by BIA, the contractor, the Intertribal Monitoring Association, and others during the assessment period. The following are some examples.

- Questions exist about the accuracy of land and mineral ownership records upon which income distributions are based.
- Fractionated interests due to heirships complicate accounting and reconciliation efforts and will continue to do so because of the increasing number of accounts BIA is required to maintain. As discussed in our February 1992 report¹, maintaining these accounts, some with transactions involving only a fraction of a penny, is not cost-effective.

¹Indian Programs: Profile of Land Ownership at 12 Reservations (GAO/RCED-92-96BR, February 10, 1992).

- Documentation for Special Deposit accounts² has been poorly maintained at the agency offices and records of some transactions are illegible or missing.
- Data on oil and gas royalty collections from Interior's Minerals Management Service (MMS) (which is responsible for collecting and distributing Indian oil and gas revenues to BIA and ensuring their accuracy) are not reliable³ because of accounting and reporting problems dating back to at least 1982.
- Agency offices use inconsistent procedures, records, and methods to calculate and distribute revenue to account holders. As a result, each process must be separately verified.
- BIA's Integrated Records Management System, the system used to maintain Indian land ownership and Individual Indian Money account information, operates at six locations. Over time, subtle changes to programs and coding schemes have made the information at these locations inconsistent. In addition, the land ownership data were never validated when they were transferred from a manual card system, according to BIA officials.

Alternatives to Trust Fund Account Reconciliation

Because many accounts are not reconcilable, alternative approaches to reach agreement on account balances will be necessary. BIA and the tribes acknowledge that alternatives may provide acceptable results. The following alternatives could be considered.

- BIA could reconcile those tribal trust fund accounts for time periods where adequate records are available.
- For tribes that have had reliable accounting systems and audited financial statements for several years, BIA could agree to use tribal account balances maintained by the tribes, or it could

²Special Deposit accounts are accounts established to temporarily hold (1) revenue receipts that involve multiple owners, such as oil and gas royalties, pending calculation and distribution to each account holder by either manual or automated distribution processes or (2) specific receipts, such as advance deposits on timber sales.

³Federal Minerals Royalty Management: An Analysis of Problem Areas Related to the Department of the Interior's Minerals Management Service with Recommended Solutions, Committee on Interior and Insular Affairs, U.S. House of Representatives, February 19, 1992.

use balances maintained by the tribes as a basis for a negotiated settlement.

- For Individual Indian Money accounts, BIA could send account statements to account holders and ask them to confirm or dispute the balances. BIA could then attempt to reach agreement or a settlement with account holders who disagree with BIA's balance.
- Tribes have suggested making funds available to them to conduct reconciliations and audits of their funds maintained in BIA's accounts.
- Finally, BIA could ask the Congress for a legislated settlement for all, or selected accounts, depending on the success of the other approaches.

STRATEGIC PLAN NEEDED TO GUIDE
FUTURE TRUST FUND MANAGEMENT

If BIA is to effectively manage the Indian trust funds, it will need to address those problems that impede accurate accounting and successful reconciliation. This will require reevaluating key program objectives and rethinking the basic concepts underlying trust funds management, including BIA's fiduciary responsibility.

In response to recommendations made in our testimony before this Subcommittee 1 year ago, BIA's Assistant Secretary indicated that corrective action would include development of a strategic plan for trust fund financial management improvement. BIA has developed a framework document and has taken some actions to improve trust fund accounting. However, BIA has not yet developed a truly comprehensive plan for improving trust fund management. Such a plan is vital to developing a cohesive strategy for the kind of comprehensive change needed to address the long-standing problems at BIA. In my view, the lack of a clear long range vision has impeded BIA's progress in the past.

To date, BIA has largely focused its attention on piecemeal corrective action plans that are not prioritized or tied into an overall plan for conducting trust fund business. In July 1991, BIA's Washington, D.C., headquarters developed a draft interim financial improvement plan which cataloged a number of short-term and long-term actions to address known problems without first analyzing the Bureau's mission, goals, and objectives to determine the most appropriate way to organize, staff, and operate the trust funds. Although the interim plan recognized that long-term solutions were necessary, it did not address how they would be developed. The Intertribal Monitoring Association, which represents Indian account holders, did not endorse the plan because it primarily focused on short-term fixes and did not adequately address long-term solutions for improving trust fund management.

In November 1991, BIA's Albuquerque, New Mexico, Office of Trust Fund Management developed a short-term improvement plan to guide trust fund improvements to be undertaken during fiscal year 1992. Like the interim plan, the short-term plan has no priorities assigned to the various plan segments and it does not tie into a comprehensive or strategic approach to solving trust fund financial management problems.

Both the headquarters and the Albuquerque plans fail to adequately consider fundamental problems in BIA's current trust accounting operation. For example, the plans do not address the following.

- The continued fractionated ownership interests, which result in the need to maintain an increasing number of small accounts.
- Staffing and training deficiencies reported by BIA's auditors. Despite efforts underway to reorganize the Office of Trust Funds Management, the plan is not supported by a staffing and organization study.
- Lack of coordination among various BIA offices which has led to unanticipated interruptions in operations and a failure of area offices to fully support needed reconciliations.
- Improvements needed to correct BIA's long-standing accounting system design and internal control weaknesses to ensure trust fund account balances will be accurately maintained in the future.
- Improvements needed in Minerals Management Service Indian oil and gas royalty collections and reporting to BIA.

Options for Future Trust Fund Management

In our May 20, 1991, testimony before the Subcommittee on Environment, Energy and Natural Resources, House Committee on Government Operations, we said that as BIA begins to think about key program objectives and how to achieve them, it needs to consider various options for managing and overseeing the trust fund program. We discussed a number of options that BIA could consider for handling trust fund financial management in the future, including contracting with a third party for certain account maintenance services, leasing an accounting system that BIA would operate itself, entering into a cross-servicing arrangement for accounting services with another federal agency, or transferring trust fund accounting and investment activities to another federal agency. Indian representatives have also suggested various options that would allow tribes greater participation in decisions on how their funds are managed and invested.

Now is the time for BIA to reevaluate key program objectives and how to achieve them, as well as to rethink the basic concepts underlying trust funds management, including BIA's fiduciary responsibility. All possible options should be considered and the status quo challenged.

IMPLEMENTATION OF THE CFO
ACT WOULD HELP ADDRESS TRUST
FUND FINANCIAL MANAGEMENT PROBLEMS

The requirements of the Chief Financial Officers Act of 1990, Public Law 101-576, provide a framework that BIA can use to help solve its long-standing financial management problems. However, as of February 1992, BIA had not determined how the act's implementation would affect trust fund operations. BIA officials told us that while they are taking steps to begin implementation of CFO Act requirements for BIA's administrative operations, they have not yet considered how they will apply them to trust fund management.

As we stated in our testimony last year, the unreconciled accounts are really only a symptom, and not a cause of BIA's trust fund financial management problems. In the long term, BIA has to deal with the root cause of its problems or it will revisit the issue of unreconciled accounts over and over again.

Some of the fundamental weaknesses discussed in Arthur Andersen & Co.'s fiscal year 1988 and 1989 and its 1990 trust fund financial statement audit reports included (1) out-of-date accounting policy and procedural manuals, (2) a lack of minimum standards for key positions in the accounting process, (3) inexperienced supervisors throughout BIA, (4) understaffing, and (5) inadequate training programs. In addition, the auditor also pointed out that BIA's financial systems did not provide accurate and timely reports to Indian and tribal account holders. These are the types of problems the CFO Act seeks to resolve, and they are areas that must be addressed before BIA's trust fund financial management problems can be corrected.

In achieving the goals of its financial management improvement initiatives, BIA needs to apply the CFO Act's broad view of financial management. Regarding BIA's need for a strong financial management organization, with qualified, trained staff, the CFO Act provides for a financial management organization structure wherein an agency CFO has ultimate responsibility for all financial management activities, operations, and personnel, which includes departmental components such as BIA. We have encouraged BIA management to address the CFO Act requirements for its financial management structure and staffing qualifications at the area and agency offices, as well as the headquarters level. We have also

suggested that BIA discuss the need for a trust fund CFO organization with its reorganization task force.

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Mr. Chairman, this concludes my remarks. I would be happy to answer any questions you or members of the Subcommittee may have at this time.

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